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PROGRESS REPORT FOR 1992 ON SPECIFIC UNIDO ACTIVITIES

Submitted by the Director-General

Summary

Updates and supplements, as of 31 August 1992, information provided in the Annual Report of UNIDO 1991 (IDB.9/10 and Corr.1 and 2) concerning the progress of: (a) implementation of the measures referred to in General Conference resolution GC.4/Res.6 on the Regional Cooperation Programme for the Industrial Recovery of Latin America and the Caribbean; and (b) implementation of resolution GC.4/Res.15 on the development of human resources.

CONTENTS

	Paragraphs	Page
Introduction	1	1
Chapter		
I. REGIONAL COOPERATION PROGRAMME FOR THE INDUSTRIAL RECOVERY OF LATIN AMERICA AND THE CARIBBEAN	2 - 12	1
A. Information to countries concerned	3 - 5	2
B. Development and implementation of projects	6 - 12	2
II. DEVELOPMENT OF HUMAN RESOURCES	13 - 28	3
A. Activities relevant to transfer of new and high technologies	16	3
B. Enhancement of ECDC/TCDC in human resource development activities	17 - 19	4
C. Integration of women in human resource development activities	20 - 22	4
D. Managerial training	23 - 28	4
III. ACTION REQUIRED OF THE BOARD	29	5

Introduction

1. The present document provides progress reports on some programmes and activities for 1992 that are not the subject of a specific item under the provisional agenda for the tenth session of the Board, but on which the General Conference or the Board has expressed the wish to see a progress report submitted to that session. Information is thus provided on activities related to the Regional Cooperation Programme for the Industrial Recovery of Latin America and the Caribbean (GC.4/Res.6, para. 4) and the development of human resources (GC.4/Res.15, para. 5). Information on the UNIDO energy programme (IDB.9/Dec.3, para. (e)) will be provided in an addendum to the present document.

I. REGIONAL COOPERATION PROGRAMME FOR THE INDUSTRIAL RECOVERY OF LATIN AMERICA AND THE CARIBBEAN

2. The General Conference at its fourth session adopted resolution GC.4/Res.6 on the Regional Cooperation Programme for the Industrial Recovery of Latin America and the Caribbean. In that resolution the Conference, while appreciating the efforts of the Secretariat in launching the Regional Programme, requested the Director-General to take a number of actions and report on them to the Board at its tenth session. Subsequently, the Board tentatively decided to schedule the consideration of the Regional Programme for its eleventh session (see IDB/S.4/Dec.2 and IDB.9/Dec.19). The present progress report is nevertheless submitted to the tenth session in order to comply with the reporting requirements

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set forth in Conference resolution GC.4/Res.6. In updating the most recent reports on the Regional Programme (GC.4/12/Rev.1 and IDB.9/10, chap. II, para. 38), the present chapter provides an account of the execution of each of the measures requested in paragraph 1 of General Conference resolution GC.4/Res.6.

A. Information to countries concerned

3. At the first biennial meeting of the Programme in September 1991 (for the report of the meeting, see GC.4/CRP.10) representatives of recipient and donor countries were informed of the progress achieved in the operational programmes and the status of the pipeline programmes at the time. Subsequently, the Conference requested the Director-General to keep the countries of the region continuously informed, through the Permanent Missions, of the status of implementation of each project identified, and to submit to them every new project with details of the financing requirements and the other actions needed for its execution (para. 1 (a) of GC.4/Res.6).

4. A status report on the capital goods project dated 23 June 1992 was made available to the Permanent Missions of the countries concerned. It gave details on the origin and development of the programme, the actions taken and progress achieved so far in addressing the problems of reduced financing that forced a scaling-down of budget and outputs and the institutional problems that arose during the preparation of the operational regional programme.

5. In August 1992 a detailed progress report on the industrial subcontracting programme was made available to the Permanent Missions of the countries of the region. At the time of preparation of the present report, there were subcontracting exchanges in all 13 countries, with seven of them having two or more exchanges already operational. These exchanges are designed to cover both products and services. Currently, product coverage includes mostly metalworking and plastic industries, followed by garment and electrical products. The first service coverage, including insurance, began operating in April. Two additional project extensions are under preparation: the first will cover four countries (Costa Rica, Dominican Republic, El Salvador and Honduras); the second will be a project specifically tailored for the Caribbean but fully compatible with the existing Latin American network of subcontracting exchanges.

B. Development and implementation of projects

6. The General Conference requested that in the implementation of the Regional Programme particular attention be paid to: the early launching of the operative phase of the three projects originally identified (promotion of investments at regional level, biotechnology and agro-industry); the completion of the preparatory studies for the additional projects; and the submission of new projects. It also requested that donor countries and international financial institutions be urged to energetically pursue the promotion of the projects, so as to ensure their adequate financing (para. 1 (b) and (c) of the resolution).

7. Concerning the launching of the operative phase of the three programmes originally identified, at the time of preparation of the present report two main projects were under preparation concerning the investment promotion programme. One is for Central America, where work has progressed at the national level to ensure an effective interplay among the subregional projects. The second is phase II of the Andean Group project which will follow up on the project opportunities identified in phase I, thus linking technical assistance with effective investment.

8. On biotechnology, discussions were held with the Federación Latinoamericana de Asociaciones y Empresas de Biotecnologia (FELAEB) to prepare a regional programme for industry. However, before undertaking the corresponding preparatory assistance, a decision was needed on the follow-up status of the United Nations Development Programme (UNDP) regional project on biotechnology that addresses research and pilot plant activities. Late in April 1992, UNDP decided that UNIDO carry on activities related to the servicing of the 13-country research network under a three-year project with a value of $550,000. The project was approved in September 1992. A meeting of the Board of the regional biotechnology network is scheduled for December 1992 in Argentina, at which time discussions will be held with other international organizations to facilitate overall coordination of action in biotechnology in Latin America and the Caribbean.

9. The agro-industries programme was under reformulation to better meet the criteria of clean technologies, assistance to micro-, small- and medium-scale industries, support to rural development and the social sector, integration of women and quality production. Discussions were in progress with the Latin American and Caribbean Association on Food Science and Technology, the Inter-American Institute for Cooperation in Agriculture (an Inter-American Development Bank institution) and the Rural Agroindustrial Development Programme. Subregional programmes for Central America and the Caribbean are under preparation.

10. Concerning the preparatory studies for the additional programmes on training, software and new materials (para. 1 (b) (ii) of the resolution), work will be carried out based on the project proposals presented to GRULAC in September 1991. Priority will be given to training by pursuing the promotion and development of centres of excellence and support to the five priority programmes: subcontracting, capital goods, investment promotion, biotechnology and agro-industry. On software, negotiations were under way with UNDP concerning phase II of the ongoing regional project on informatics and microelectronics, which was extended till December 1992. The GRULAC programme on software will be complemented and coordinated with phase II of that project. Regarding new materials, the preparatory assistance will be implemented as soon as the staff shortage situation at UNIDO Headquarters is alleviated. New projects within the above programmes will be submitted to GRULAC as soon as they become available (para. 1 (b) (iii) of the resolution).

11. Efforts continued concerning the promotion of the Regional Programme's projects to ensure their adequate financing. Thus, as a result of the visit of a UNIDO delegation to the Inter-American Development Bank in January 1992, the Bank was considering the signature of a framework agreement with UNIDO as well as its possible participation in the industrial subcontracting (for Caribbean countries) and investment promotion programmes.

12. In line with the concerns reflected in paragraph 1 (d) of resolution GC.4/Res.6, further measures were taken to better define the contents of the projects included in each programme, and ensure that they meet not only the regional but also the national priorities of all countries of the region. For that purpose, all project proposals were circulated to GRULAC, Vienna, for comments. Furthermore, a field visit was undertaken in February 1992 in order to better coordinate activities, and ascertain the views of national counterparts of operational projects for consideration when designing new projects. As a result, interesting cooperation activities were identified with the Latin American Economic System, the Latin American Integration Association, the Association of Latin American Industrialists, the Andean Group Secretariat, the Andean Development Corporation and FELAEB. The public and private sector counterparts visited on that occasion expressed their positive experiences with the ongoing programmes (subcontracting and capital goods). The main aim of the measures undertaken by the Secretariat was to prepare an updated plan of action for 1992, for execution at programme and project levels. However, the preparation of the updated plan of action was delayed by two main factors: a major institutional problem that arose late in February 1992 in the capital goods programme, and staff shortages in the UNIDO Secretariat.

II. DEVELOPMENT OF HUMAN RESOURCES

13. Evoking the framework within which the UNIDO programme for the development of human resources is conducted, the General Conference adopted resolution GC.4/Res.15 on that subject. The resolution highlighted, inter alia, the importance of linkage with the transfer of new and high technologies, the economic and technical cooperation among developing countries (ECDC/TCDC), and the integration of women in all industrial human resource development activities. The Director-General was also requested to prepare, within the comprehensive policy framework for UNIDO operations (GC.3/8), a component that addresses the needs of managerial training and development of human resources for developing countries, particularly in the areas of advanced technologies and managerial, quality control and productivity techniques, oriented towards the strengthening of developing countries' capabilities for national execution of technical projects.

14. In the interest of brevity, the present document presents selectively information on those activities of most direct relevance to the mandates contained in General Conference resolution GC.4/Res.15. Information on the 1992 overall activities of the human resource development programme will be provided in the Annual Report of UNIDO 1992.

15. In response to the General Conference mandates and as reflected in the medium-term plan, greater attention is being focused on the design of activities within the industrial human resource development programme to ensure: (a) appropriate linkage between development of human resources and transfer of new and high technologies; (b) the enhancement of the ECDC/TCDC component in human resource development programmes, with increased emphasis on South-South cooperation; (c) the enhancement of the integration of women in all industrial human resource development activities of the Organization; and (d) the improvement of quality and effectiveness in human resource development activities. While financial constraints have limited the possibility of expanding activities to address each of those concerns per se, every effort is made to incorporate relevant elements in ongoing activities. For instance, one in-plant group training programme, held at Krakow, Poland, from May to July 1992, addressed the concerns of Member States with respect to TCDC, transfer of technology and the training of managers. Entries in the updated Guide to Training Opportunities for Industrial Development (PI/109) also reflect those concerns. In all activities, utmost care is taken to ensure maximum quality and effectiveness.

A. Activities relevant to transfer of new and high technologies

16. In planning and designing the integration of the three main components (experts, training and equipment) within large-scale technical cooperation projects, the Organization has continued to develop linkages between development of human resources and transfer of new and high technologies. Such linkages are also reflected in activities being currently planned or implemented by the Industrial Human Resource Development Branch. In the following selective listing of relevant training activities carried out thus far in 1992, the special importance accorded to new and high technologies can easily be noted.

Venue/date	Subject	Objective/comments
Budapest, Hungary May-June 1992	Biomedical equipment maintenance and repair	Introduce new skills in biomedical equipment maintenance and repair as well as produce training material, e.g. a video cassette for Latin American training centres (follow-up to 1991 activity held in cooperation with France, IAEA and WHO)
Odessa, Ukraine May 1992	Advanced information technology applications and networks integration	Introduce participants to advanced hardware and software applications related to teleinformatics, electronic mail systems and computer networks to establish on- and off-line linkage with UNIDO and other databases
Managua, Nicaragua May 1992	Appropriate technologies for Central America	Promote, develop, disseminate and transfer appropriate technologies for strengthening of productive system in Central America, within subregional integration framework
Brno, Czechoslovakia March 1992	Technology transfer and contracting	Enhance capabilities of developing countries in negotiation and acquisition of technologies, particularly from foreign sources
Trieste, Italy (ICGEB and ICS) ongoing	Genetic engineering and biotechnology	Enhance awareness of scientists and experts from developing countries in new technologies (regular training courses as part of ICGEB and ICS programmes)

B. Enhancement of ECDC/TCDC in human resource development activities

17. Cooperation among developing countries continues to represent an important component of the human resource development programme. Confronted with scarce resources, the approach focuses on incorporation of ECDC/TCDC, and particularly of South-South cooperation, into training activities. That approach is exemplified by the creation of two associations (one each in Asia and North Africa) as a follow-up to group training programmes on building materials held in 1991 and 1992 in France, Morocco and Tunisia designed to enhance the cooperation and exchange of experience and information between former participants and institutions. Within the framework of both South-South and North-South cooperation, these programmes also involved the training of managers from both Asia and North Africa.

18. Eight countries in the Preferential Trade Area for Eastern and Southern African States participated in a technical course on timber construction held at Harare, Zimbabwe, in March 1992, within the framework of a project on intraregional cooperation in the development of plantation-based forest industries. Under the same project a technical course on furniture and joinery production was held at Blantyre, Malawi, in February 1992.

19. Also within the framework of TCDC, Turkey continued to play an important role in financing and hosting in-plant group training programmes. Arrangements have been completed for eight such programmes in 1992, an increase from seven held in previous years.

C. Integration of women in human resource development activities

20. To enhance the integration of women in industrial development, that component is emphasized in a number of projects. Furthermore, a workshop for UNIDO Country Directors, similar to that conducted in June 1991, was held in January 1992 with a view to strengthening the capacity of UNIDO staff in addressing relevant aspects of women in development in programmes and projects. Women-in-industry/development experts were attached to country programming and industrial sector review missions in order: (a) to ensure that women are taken into consideration in industrial sector inputs for the fifth UNDP programming cycle (1992-1994); (b) to assess the status of women within and their contribution to the national human resource base for industry; and (c) to determine, together with other needs, the human resource technical cooperation measures required to integrate women into the national industrial base.

21. UNIDO encourages developing countries to nominate women to participate in training programmes. While there is considerable room for improvement, some progress has been noted in that respect. The percentage of women participants in in-plant group training programmes increased from 6 to 12 per cent from 1990 to 1991. In other group training programmes the proportion rose from 14 to 18 per cent of all participants in the same period.*

22. Programmes designed for skills development of women entrepreneurs and managers are under way in various fields. The UNIDO training programme for women entrepreneurs in the food-processing industry is being disseminated (see IDB.6/10, chap. IV, para. 27). A preparatory mission to Guatemala and Honduras resulted in the development of a regional project proposal based on the training programme. Projects to introduce the training programme were developed for the Gambia and the United Republic of Tanzania. In Malaysia, a preparatory mission will be carried out to assess the suitability of the programme for that country's women entrepreneurs. To enhance dissemination, the training programme is being translated into French.

D. Managerial training

23. In resolution GC.4/Res.15, the Director-General was requested to prepare a component within the comprehensive policy framework for human resource development (GC.3/8) which addresses the needs of managerial training and development of human resources for developing countries, particularly in the areas of advanced technologies and managerial, quality control and productivity techniques, oriented towards the strengthening of developing countries' capabilities for national execution of technical projects. At a meeting convened in March 1992 at Turin, Italy, senior fellowship officers of the United Nations system called for coordination in the training of national counterparts. While no specific recommendations were adopted on that subject, hope was expressed at the meeting that the agencies and fellowship services involved could agree on some measure of co-sponsorship of training workshops and seminars.

24. UNIDO shares the view expressed by other United Nations organizations that it behoves them to assist recipient Governments in acquiring the national capacity to implement technical cooperation projects. The UNIDO component will be prepared pending the development of a training package by the International Training Centre of the International Labour Organisation. Under preparation by the Centre, the package will include both conceptual and technical modules in training, fellowships management and related subjects with a view to setting up a network of selected training institutions. While no schedule has been established for completion of the package, it is anticipated that the modules will be the subject of further discussion by the executing agencies. It must also be borne in mind that the implementation of additional activities within the future component of the comprehensive policy framework will be subject to the availability of resources.

25. As the only collection of information available on a global level in the field of industrial training, the Guide to Training Opportunities for Industrial Development represents an important UNIDO resource to developing countries in respect of acquiring the requisite skills for project execution. Within the context of national execution UNIDO is reviewing possibilities for expansion of the Guide. Other organizations in the United Nations system have expressed their intention to issue similar publications covering their respective fields of competence.

26. Within the scarce resources available, the Secretariat has introduced a management component into numerous training activities. An integral part of the technical course in Blantyre referred

* Figures do not include participants in training activities organized within the framework of UNIDO-executed field projects.

to in paragraph 18 above brought production managers in Malawi up to date on technical aspects of furniture and joinery production. Production management was also the subject of an in-plant group training programme in manufacturing held in Japan in 1992. Participants, including managers, from nine developing countries were introduced to the most advanced production management systems in the host country.

27. Within the context of the programme for the Second Industrial Development Decade for Africa, preparatory assistance in 1991 included an integrated training programme for improved rehabilitation management. Highly commended by the Government of Burkina Faso and by UNDP in Ouagadougou, in-service training from that programme resulted in the approval of a project under the least developed countries component of the regular programme for technical cooperation, leading to new production processes for the rehabilitation of brick production in Burkina Faso.

28. Training seminars and workshops on investment project identification, preparation, appraisal and financing represent a further example of activities focusing on training of managers. In 1992, seven seminars involving the training of some 120 participants have already been conducted. Particular attention has been given to training programmes on investment project appraisal for banks and related institutions. Bankers, financial analysts, industrialists and investment decision makers continue to be trained in the methodology of the UNIDO Computer Model for Feasibility Analysis and Reporting.

III. ACTION REQUIRED OF THE BOARD

29. The Board may wish to take note of the information contained in the present document.

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PROGRESS REPORT FOR 1992 ON SPECIFIC UNIDO ACTIVITIES

Submitted by the Director-General

Addendum

UNIDO energy programme

Summary

Comprises an input to the progress report for 1992 on specific UNIDO activities (IDB.10/18), concerning the UNIDO energy programme, taking into account the comments made by the Member States at the ninth session of the Board and the relevant recommendations of the United Nations Conference on Environment and Development.

Introduction

1. As requested in a decision by the Board at its ninth session (IDB.9/Dec.3) the present document is a progress report of activities undertaken by the UNIDO energy programmme during the period May to August 1992, taking into account the comments made by the Member States at that session as well as the relevant recommendations of the United Nations Conference on Environment and Development (UNCED), 3 to 14 June 1992. The present addendum should be considered a part of the progress report for 1992 on specific UNIDO activities (IDB.10/18).

A. Country energy programmes

2. Africa: At the request of the countries of the Southern African Development Coordination Conference (SADCC), a comprehensive study was carried out for the subregion to develop renewable and non-renewable sources of energy taking into account the impact of industrialization on the environment. In 1991, UNIDO had completed a large-scale project in Angola for a Regional Petroleum Training Centre for SADCC countries, funded by the United Nations Development Programme (UNDP), the Norwegian Agency for International Development (NORAD) and Italian aid programmes. Since the energy problems of individual African countries varied widely it was decided that a second phase of the activity should be planned to deal with specific country needs at both national and regional levels. The approach considered was to identify and evaluate the specific needs of the member countries and identify projects which could be grouped into regional programmes. At a national level, following ongoing discussions, the activities will address specific country problems, develop a programme in consultation with local institutions and counterparts and within this programme, identify projects for execution.

3. Fossil fuel resources of some developing countries, such as coal, gas and oil, are not utilized effectively because of a lack of technological knowledge or the absence of infrastructure to process and distribute the resources at a reasonable price. In addition, senior officials making the energy policy decisions often are unaware of the various options available to develop and utilize fossil fuel resources. At the request of several African countries, UNIDO is currently undertaking the development of programmes to identify, classify and prioritize energy-related activities on a country/regional basis. The programmes are in line with the policies of UNIDO to assist developing countries to initiate programmes to better utilize existing resources and identify and apply alternate technology for use in the development process as well as effectively implement these programmes. They will also target the reduction of deforestation in this region and the integration of women into the programmes through education and training in the use of alternate fuels such as charcoal, and improved cooking methods through, for example, better

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designed stoves. The projects are representative of activities where a small investment under the Industrial Development Decade for Africa can lead to a major project with international financial support. It will involve 14 African countries and assist with both social and economic development of the area as well as energy-efficient industrialization.

4. The results of several missions and the studies of three experts relating to the needs in the energy sector of each member country of SADCC were finalized in conjunction with a final report prepared in August. Items addressed included the sources of energy, the specific energy needs, and the results of training programmes to enhance and introduce efficient forms of energy in each country.

5. The anticipated result will include the formulation of national and regional programmes for consideration at the biennnial SADCC Ministers meeting scheduled for November this year. The programmes cover gas, petroleum, coal, charcoal, new and renewable energy, biomass, and energy conservation and efficiency. The annual cost of the programmes is estimated to be $3 to $4 million. As evidence of the multilateral interest in the programme, requests for copies of the final programming report have come from UNDP, NORAD, the Italian aid programme and the Government of Canada. The Canadian International Development Agency has recently approved funding assistance for the needs assessment and UNDP, NORAD, and Italian aid programme are also considering providing financial assistance.

6. United Republic of Tanzania: During a mission in July 1992, discussions took place with the Minister of Energy and Mining for the United Republic of Tanzania, resulting in a programme concept for the better utilization of high sulphur coal and improved electricity supply for industry as well as on deforestation issues. The programme, now in the planning stage, will have local as well as regional implications for Africa where deforestation is a widespread problem. It will address actions necessary to replace the use of high value wood with cheaper, quick-growing wood; to improve the efficiency of wood use with better stoves; to identify and develop alternatives to wood use domestically on a long-term basis.

7. China: An adviser on energy matters to UNIDO, on loan from the United States Department of Energy for the last 18 months, completed an energy programme in May 1992 for China on coal utilization which included two projects where UNIDO will provide technical expertise. The coal utilization programme was the first energy programme prepared by UNDP at the country level, and was approved in June 1992 with technical support from UNIDO. The projects in which UNIDO will participate will involve providing technical assistance to industry to ensure that the steam and power generated from coal for industrial production is undertaken on environmentally sound lines and to minimize energy costs. During the mission in May, high-level meetings were held with UNDP and a number of specialized centres and research institutes in China as well as relevant government departments and international technical bodies. The discussions enabled finalization of project documents on coal utilization and energy conservation - areas where UNIDO could contribute.

8. India: A project to study the feasibility of establishing a lignite mine and power generation facility was drafted during the reporting period to support activities of the Tamil Nadu Industrial Development Corporation Limited of India. The project is being developed for bilateral funding support.

B. Inter-agency cooperation

9. UNIDO, in cooperation with the International Atomic Energy Agency (IAEA), International Institute for Applied Systems Analysis (IIASA), and Organization of Oil Exporting Countries (OPEC), - the "Vienna Four" - has prepared and submitted a paper to the World Energy Council (WEC) for presentation at the next WEC conference at Madrid, Spain, in September 1992. The paper, "Energy in the 21st century, new challenges and goals", is to be reviewed at the conference. A major part of the paper covering technology transfer and the economics and financing of new technologies was contributed by UNIDO. In addition, UNIDO coordinated and submitted the combined paper. The "Vienna Four" are undertaking informal reviews of UNCED-related documents including the Framework Convention on Climate Change, Agenda 21, and the two global energy efficiency programmes by the Economic Commission for Europe. The aim of the reviews is to identify activities and a possible role for the "Vienna Four", with regard to the outcome of UNCED.

10. As part of its activities with the "Vienna Four", UNIDO has been participating jointly with IAEA as of May 1992 in developing a technology assessment database. The environmental- and health-related impacts of different energy systems, particularly those associated with the production of electricity, are emerging as significant issues for the coming decades, including the effects of pollution on health, environmental damages due to acidification of forests and lakes, and the risks of global climate change induced by increasing atmospheric concentrations of carbon dioxide and other greenhouse gases. These, together with the emerging needs of many countries to define their energy programmes, have provided the basis for a growing interest in the application of improved data, tools and techniques for comparative assessment of different electricity generating systems, particularly from an environmental and human health viewpoint.

11. UNIDO participated in a workshop convened by IAEA on "Database for health and environmental impacts of various energy systems", from 31 August to 4 September 1992. It served as the first meeting of the coordinating expert group on databases. The Technical Committee Meeting (TCM) of IAEA, which will draw upon the work of participating organizations, had as its objective an agreement on the structure and content of the databases to be developed within the joint project. The TCM was able to set out a proposed basis for furthering the work of the expert group on databases. UNIDO will follow the activities and results of the database development for inclusion in its technical assistance activities with developing countries as appropriate.

C. Ongoing energy-related projects

12. For some years now, UNIDO has undertaken major promotional information activities with regard to new and non-polluting energy technologies based on solar, hydrogen and hydropower. The main activity in the area of solar energy has been through the Consultative Group for Solar Energy Research and Application

(COSERA), a forum for solar energy research with the support of the donor community. This has been augmented by an ongoing proposal to establish centres of application for solar energy (CASE), aimed at bridging the gap between research and development and the market place. Similarly, in the field of small hydropower plants the promotional work of UNIDO has concentrated on international cooperation through the establishment of networks and information exchange. More recently, with the growing importance of environmental considerations, the subject of energy production from hydrogen has been highlighted through studies, expert group meetings and a proposal to establish an information centre. Within the framework of the UNIDO Industrial and Technological Information Bank (INTIB) a referral database on energy and environment has been established.

13. In the area of new and renewable energy sources, an expert in solar thermal and photovoltaics was fielded in April 1992 to assess the possibilities of transferring related technologies for the local manufacture of solar water heaters and the assembly of photovoltaic panels to Damascus, Syrian Arab Republic, in conjunction with a project in which UNIDO and the Arab School of Science and Technology jointly hosted a workshop in February this year on composites and advanced materials. Based on the findings of the workshop and mission, a report has been completed and follow-up activities are being initiated, including a regional project for Arab countries.

14. Under a project for technical assistance in laboratory tests to adopt wind generator technology for battery charging to pilot production, an expert was fielded during the reporting period to assist in establishing the manufacturing process. He also assessed the possibilities of application of solar energy and biomass in Mongolia, as well as potential projects dealing with upgrading/rehabilitation of plants in the electric subsector.

15. Under a regional programme for the establishment of small hydropower plants in Africa, questionnaires have been sent during the reporting period to project counterparts in the seven countries involved in the project. After evaluation of the responses, the subcontractor will undertake two missions to determine the present status of site selection for the envisioned small hydropower plants.

16. A number of UNIDO technical assistance projects in Madagascar and Sudan have been exploring the possibility of utilizing agricultural residues to produce charcoal. After examining the technical, economic, marketing and commercial aspects of introducing such technology, indications are that the introduction of the technology would be feasible, and in the case of Madagascar several bankable propositions were identified. However, further assistance would be required for their implementation. Projects are currently being developed to seek such assistance, with the emphasis on enhancing management capability for the proposed plants, and also to allow the technology to be examined for feasibility at other sites. Successful introduction of such technology would help to relieve pressure on valuable forest resources currently being used for firewood, and so help to reduce the rate of deforestation. Projects now in the planning stage include preparation of a brochure on producing charcoal briquettes from cotton stalks for dissemination to other countries where the technology may be applicable, further assistance with the development of technology for charcoal briquetting and assistance with commercializing the process.

17. In the area of biogas production from industrial wastes, two projects are under way to build demonstration pilot plants in China and Zimbabwe, one for treating distillery waste and the other for food-processing waste. The pilot plants will be operational in 1993, and will be used to promote the technology on a regional basis. It is hoped that the two projects will point the way to a larger programme in biogas technology. To further aid programme development a major regional study is currently being developed to investigate barriers limiting the application of the technology and the means to overcome them. The holding of an international workshop is being considered.

18. During the reporting period UNIDO completed a European regional project to establish an energy conservation network of participating institutions which is now capable of providing information, training and consultancy services. During the life of the project a concept of a mobile diagnostic unit for conducting energy auditing tailored for local demand has been developed and six "energy auditing buses" have been put into operation. More than 100 specialists have been trained in three training centres established by the project. Detailed energy audits have been carried out mainly in building materials, food processing and the iron and steel industries which resulted in the implementation of low-cost energy efficiency improvement measures. An information system with relevant sectoral databases was installed during the reporting period in the countries of the project.

19. A project of industrial energy management consultancy and training for the Philippines is near completion, including the establishment of an analysis group for carrying out economic evaluations and feasibility studies on energy conservation projects as well as a study on locally available financing schemes and programmes offered by certain banking institutions. A fuel and appliances testing laboratory was fully operational as of April 1992 for testing air conditioners and refrigerators. Plans are completed for certification testing of the energy efficiency of fans and air conditioners as well as for a programme to label the equipment with energy-efficiency markings and to launch a public awareness campaign. Two manuals, one on energy efficiency in the food-processing industry and the other on consultancy services in energy conservation, were ready for distribution by the middle of 1992. They are based on the experience of Central and East European countries.

20. Several projects are in the formulation stage for seminars on energy technologies for UNIDO staff members. These will provide in-house information on advanced technology systems and methodologies for improving the efficiency and environmental cleanliness in industry.

ACTION REQUIRED OF THE BOARD

21. The Board may wish to take note of the present progress report.

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PREPARATORY ARRANGEMENTS FOR THE FIFTH SESSION OF THE GENERAL CONFERENCE

Preparation of the provisional agenda of the fifth session of the General Conference

Note by the Secretariat

1. In accordance with Article 9.4 (g) of the Constitution, the Board prepares the provisional agenda for each session of the General Conference.

2. The fifth session of the Conference will be held from 6 to 10 December 1993. The Board will have the opportunity to prepare the provisional agenda for the Conference either at its current session or at its eleventh session, which is tentatively scheduled for 28 June to 2 July 1993.

3. In order to enable Member States as well as the Secretariat to start preparations for the Conference well ahead of time, it would be advisable to have an indication as early as possible of the items that are likely to be discussed on that occasion. A tentative list of items could thus be agreed upon at the current session and reviewed by the Board at its eleventh session when the provisional agenda would be finalized.

4. Rule 13 of the rules of procedure of the Conference provides guidelines for the contents of the provisional agenda of a regular session of the Conference. Furthermore, at its fourth session, the Conference referred a certain number of items to its next session. On the basis of these and other provisions the Secretariat is submitting to the Board for its consideration the list of items contained in annex I to the present document. The order in which the items are listed in that annex does not reflect any indication on the part of the Secretariat as to the priority to be given to these subjects.

5. For some of the items listed, documents have been prepared for the current session of the Board which, with some updating, could be submitted to the General Conference at its fifth session. In those cases, the document is referred to in parentheses under the relevant item.

6. The Conference at its fourth session adopted resolution GC.4/Res.26 on streamlining the work of the policy-making organs, in which it recommended to the Board "to set up the agenda of the fifth session of the Conference to correspond to the five medium-term priority problem areas, the three thematic programmes and the regional dimension, taking into account the policy directives by major categories of programme instruments, and this, with the aim that the outcome of its deliberations take the form of a single text covering the above-mentioned". The Conference also recommended to the Board that it examine ways and means of achieving the implementation of that recommendation. The Board at its ninth session had before it a note by the Secretariat (IDB.9/13) with some proposals in that respect but no decision was taken on the subject at that session. Nevertheless, in order to comply with the recommendation in GC.4/Res.26, paragraph 2, a possible grouping of some of the items following the main themes of the current medium-term plan is proposed in annex II to the present note.

ACTION REQUIRED OF THE BOARD

7. The Board may wish to consider the proposals annexed to the present note and adopt a tentative provisional agenda for the fifth session of the General Conference, which could be reviewed by the Board at its eleventh session.

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Annex I

PREPARATION OF THE PROVISIONAL AGENDA OF THE FIFTH SESSION OF THE GENERAL CONFERENCE

List of items to be considered for inclusion in the provisional agenda

Item	Mandate*
1. Opening of the fifth session	Rule 34
2. Election of officers	Rule 35
(a) Election of the President	
(b) Election of other officers	
3. Adoption of the agenda	Rule 17
4. Organization of work	Rules 44-47
5. Credentials of representatives in the Conference	Rule 28
6. Elections to organs	Rule 102
(a) Industrial Development Board	
(b) Programme and Budget Committee	
7. Reports of the Industrial Development Board on the work of its fourth special session, ninth, tenth and eleventh regular sessions	Rule 13.1 (c)
8. Annual reports of the Director-General on the activities of the Organization for 1991 and 1992	Rule 13.1 (b)
9. Technical cooperation activities of UNIDO (incl. contribution to international efforts to mitigate the consequences of the Chernobyl accident)	GC.4/Res.3 GC.4/Dec.11 GC.4/Res.1
10. Special regional programmes	
(a) Special Programme for Industrial Development in the Arab Countries (latest report: IDB.10/12-GC.5/5)	GC.4/Res.5
(b) Special Programme for Industrial Development of Asia and the Pacific	(subject to decision at IDB.11)
(c) Regional Cooperation Programme for the Industrial Recovery of Latin America and the Caribbean	(subject to decision at IDB.11)
11. Technical assistance to the Palestinian people	GC.4/Res.7
12. Second Industrial Development Decade for Africa	GC.4/Res.8
13. Industrialization of the least developed countries	GC.4/Res.9
14. Economic and technical cooperation among developing countries	GC.4/Res.11 (MTP common element)
15. Integration of women in industrial development	GC.4/Res.12 (MTP common element)
16. Human resource development	(MTP priority)
17. Development and transfer of technology	GC.4/Res.13 (MTP priority)

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* Rules refer to the Rules of Procedure of the General Conference (UNIDO/2). MTP is used as abbreviation for the medium-term plan, 1992-1997 (PBC.7/17).

Annex I (continued)

	Item	Mandate*
18.	Industrial rehabilitation	(MTP priority)
19.	Small- and medium-scale industries	(MTP priority)
20.	Environment and energy	(MTP priority)
21.	Evaluation activities of UNIDO	GC.4/Res.16
22.	Industrial investment promotion	GC.4/Res.17
23.	System of Consultations	IDB.9/Dec.9
24.	New concepts and approaches for cooperation in industrial development in conformity with Article 2 (c) of the Constitution	GC.4/Res.19
25.	Evaluation of the objectives and functions of UNIDO in view of recent changes and developments in the world (latest report: IDB.10/21-GC.5/7)	GC.4/Res.20
26.	Mobilization of financial resources for industrial development (latest report: IDB.10/20-GC.5/6)	(subject to decision at IDB.10) (MTP common element)
27.	The external debt and industrial development (latest report: IDB.10/20-GC.5/6)	GC.4/Res.22
28.	Computerization programme	GC.4/Dec.18 para. (h)
29.	Organizational and staff structure	GC.4/Dec.22
30.	Personnel matters	
	(a) United Nations Joint Staff Pension Fund	GC.4/Dec.23
	(b) Women in the Secretariat	GC.4/Dec.24
31.	Financial matters	
	(a) Scale of assessments of Member States	Rule 13.1 (k)
	(b) Financial situation of UNIDO	(recurrent item)
	(c) Financial regulations	GC.4/Res.23, para. 3 GC.4/Res.27, para. 8
	(d) Working Capital Fund	Financial regulation 5.4
	(e) Appointment of External Auditor	Financial regulation 11.1
32.	Medium-term plan, 1994-1999	GC.2/Dec.23 (b)(vi)
33.	Programme and budgets, 1994-1995	Rule 13.1 (i)
34.	Industrial Development Fund	(recurrent item)
35.	Matters related to intergovernmental, non-governmental, governmental and other organizations	GC.1/Dec.41, annex
36.	Headquarters agreement between UNIDO and the Republic of Austria	(subject to decision at IDB.10)
37.	Appointment of the Director-General	Article 11 of the Constitution
38.	Date and place of the sixth session	
39.	Closure of the fifth session	

Annex II

GROUPING OF ITEMS ON THE BASIS OF GC.4/RES.26, PARAGRAPH 2

1. Opening of the fifth session
2. Election of officers
   - (a) Election of the President
   - (b) Election of other officers
3. Adoption of the agenda
4. Organization of work
5. Credentials of representatives in the Conference
6. Elections to organs
   - (a) Industrial Development Board
   - (b) Programme and Budget Committee
7. Annual reports of the Director-General on the activities of the Organization for 1991 and 1992
8. Priority areas in the medium-term plan, 1992-1997
   - (a) Human resource development
   - (b) Development and transfer of technology
   - (c) Industrial rehabilitation
   - (d) Small- and medium-scale industries
   - (e) Environment and energy
9. Common elements in the medium-term plan, 1992-1997
   - (a) Mobilization of financial resources for industrial development, including:
   - (i) Industrial investment promotion; and
   - (ii) Industrial Development Fund
   - (b) Economic and technical cooperation among developing countries
   - (c) Integration of women in industrial development
10. The regional dimension
    - (a) Second Industrial Development Decade for Africa
    - (b) Special Programme for Industrial Development in the Arab Countries
    - (c) Special Programme for the Industrial Development of Asia and the Pacific
    - (d) Regional Cooperation Programme for the Industrial Recovery of Latin America and the Caribbean
    - (e) Industrialization of the least developed countries
    - (f) Technical assistance to the Palestinian people
11. Policy directives
    - (a) Policy forums
    - (i) Reports of the Industrial Development Board on the work of its fourth special session, ninth, tenth and eleventh regular sessions
    - (ii) System of Consultations
    - (b) Studies and research
    - (i) New concepts and approaches for cooperation in industrial development in conformity with Article 2 (c) of the Constitution
    - (ii) Evaluation of the objectives and functions of UNIDO in view of recent changes and developments in the world
    - (iii) The external debt and industrial development
    - (c) Technical cooperation activities of UNIDO (incl. contribution to international efforts to mitigate the consequences of the Chernobyl accident)
    - (d) The coordinating role of UNIDO
12. Policy management
    - (a) Evaluation activities of UNIDO
    - (b) Organizational and staff structure
13. Programme support
    - (a) Matters related to intergovernmental, non-governmental, governmental and other organizations
    - (b) Headquarters agreement between UNIDO and the Republic of Austria
    - (c) Personnel matters
    - (i) United Nations Joint Staff Pension Fund
    - (ii) Women in the Secretariat
    - (d) Financial matters
    - (i) Scale of assessments of Member States
    - (ii) Financial situation of UNIDO
    - (iii) Financial regulations
    - (iv) Working Capital Fund
    - (v) Appointment of External Auditor
    - (e) Computerization programme
14. Medium-term plan, 1994-1999
15. Programme and budgets, 1994-1995
16. Appointment of the Director-General
17. Date and place of the sixth session
18. Closure of the fifth session

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Fifth session
6-10 December 1993

Industrial Development Board

Tenth session
Vienna, 2-6 November 1992
Items 8 and 9 of the provisional agenda

MOBILIZATION OF FINANCIAL RESOURCES FOR INDUSTRIAL DEVELOPMENT

THE EXTERNAL DEBT AND INDUSTRIAL DEVELOPMENT

Progress report by the Director-General

Summary

Reports on the implementation of the actions and measures called for in General Conference resolutions GC.4/Res.21 on the mobilization of financial resources for industrial development and GC.4/Res.22 on the external debt and industrial development.

CONTENTS

	Paragraphs	Page
Introduction	1 - 3	2
Chapter		
I. MOBILIZATION OF FINANCIAL RESOURCES	4 - 22	2
Innovations in industrial financing	4 - 7	2
Promotion of direct mobilization of financial resources	8 - 11	3
Cooperation with international, regional and bilateral financing institutions for development	12 - 16	4
Conforming with the priorities of UNIDO's Constitution and the medium-term plan	17 - 18	4
Coordination with subregional and regional development banks and international financing institutions	19 - 20	5
Assistance to developing countries in identifying, designing and financing industrial projects in response to their needs	21 - 22	5
II. UNIDO ACTIVITIES AND THE EXTERNAL DEBT	23 - 36	5
UNIDO technical cooperation and the alleviation of the debt burden	23 - 28	5
UNIDO inputs in the current methods of industrial financing and the development of innovative approaches	29 - 30	6
Consideration of the debt problem and the priorities of developing countries in the planning, formulation and implementation of UNIDO activities	31 - 33	7
Industrial Development Fund	34 - 36	7
III. ACTION REQUIRED OF THE BOARD	37	7

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Introduction

1. In its resolution GC.4/Res.21 on the mobilization of financial resources for industrial development, the General Conference at its fourth session requested the Director-General:

(a) To make recommendations to Member States based on the studies on innovations in industrial financing in developing countries including debt-equity swaps, venture capital companies and funds, country funds focused on developing country stock markets, industrial leasing, and build-operate-transfer (BOT) arrangements (GC.4/Res.21, para. 1);

(b) To pursue and reinforce UNIDO activities concerning the mandate in General Conference resolution GC.2/Res.10, paragraph 1, with special emphasis on the effective promotion of direct mobilization of financial resources for the industrialization of developing countries; (ibid., para. 2 (a))

(c) To take actions called for in paragraph (h) (iii) of Board decision IDB.7/Dec.18 and, for that purpose, to take into account the measures indicated in paragraphs 12 to 29 of document GC.4/33, in particular to strengthen all pre-investment activities mentioned in paragraphs 15 to 24 of document GC.4/33, inter alia, the investment promotion programme, feasibility studies and the System of Consultations (ibid., para. 2 (b));

(d) To ensure that in the planning, formulation and implementation of UNIDO activities, the mobilization of financial resources be in conformity with the priorities set out in the Constitution of UNIDO and the medium-term plan 1992-1997 (ibid., para. 2 (c));

(e) To ensure greater complementarity by improving coordination with the regional organizations and international financing institutions, in particular the World Bank Group and the regional and subregional development banks, in order to promote effectively the mobilization of financial resources for the industrial development of developing countries (ibid., para. 4);

(f) To intensify efforts so that UNIDO shall assist developing countries in identifying and designing industrial projects in response to their needs as well as in maintaining its intermediary role in seeking financing from all sources necessary for their planning and implementation (ibid., para. 5); and

(g) To submit to the Board at its tenth session a progress report on the implementation of the actions called for in the resolution as listed above (ibid., para. 6).

2. Furthermore, in its resolution GC.4/Res.22 on the external debt and industrial development, the Conference requested the Director-General:

(a) To take fully into account in implementing UNIDO activities such as those enumerated in document GC.4/33, chapter II, the need to alleviate the debt burden of the developing countries, especially with regard to pre-investment activities, contract negotiations and financing of industrial projects and, on this basis, to present the report requested in paragraph (e) (i) of Board decision IDB.7/Dec.20, i.e. a report on how UNIDO technical cooperation activities take those concerns into account (GC.4/Res.22, para. 2);

(b) To ensure that the activities of UNIDO take into account the need to offset the negative effects of external debt on the industrial sectors of developing countries (ibid., para. 3 (a));

(c) To promote and implement, in collaboration with developed and developing countries as well as relevant financial institutions, possible UNIDO inputs in the current methods of industrial financing outlined in document GC.4/33, according to the needs of interested developing countries and to continue to develop within UNIDO's area of competence innovative approaches for specific programme and project proposals geared to the alleviation of the adverse impact of external debt on industrial development (ibid., para. 3 (b));

(d) To ensure that in the planning, formulation and implementation of UNIDO activities, the debt problem be considered in connection with the priorities of developing countries expressed in the medium-term plan (ibid., para. 3 (c));

(e) To promote financial contributions to the Industrial Development Fund, to rehabilitate and increase the competitiveness of the industry of the highly indebted developing countries (ibid., para. 3 (d)); and

(f) To report on the implementation of the measures listed above to the Conference at its fifth session through the Board at its tenth session (ibid., para. 6).

3. Because of the very considerable degree of overlap in UNIDO activities aimed at the mobilization of financial resources for industrial development and those directed towards alleviation of the effects of the external debt on industrial development in developing countries, the present document provides a single joint report on the two subjects. Furthermore, the report requested by the Board in its decision IDB.7/Dec.20 (para. (e) (i)), referred to in paragraph 2 (a) above is included in paragraphs 23 to 27 below.

I. MOBILIZATION OF FINANCIAL RESOURCES

Innovations in industrial financing (GC.4/Res.21, para. 1)

4. Information on financial innovations for industrial development has been presented by the Secretariat in chapter IV of Industry and Development: Global Report 1991/92 (ID/376). This information covers, inter alia, a series of recommendations on measures to be taken and constraints which need to be overcome primarily at the national level, if individual developing countries wish to make use of debt-equity swaps, venture capital companies and funds, country funds focused on developing country stock markets, industrial leasing, and BOT arrangements. A report submitted to the seventh session of the Board (IDB.7/23) also examined possible UNIDO inputs into the operation of innovations for the mobilization of financial resources for industry in developing countries, i.e. technical cooperation activities that UNIDO can undertake with developing countries to assist them in the adoption of various financing innovations for industrial development.

5. UNIDO promotes the BOT concept as a possible alternative for implementing, financing and operating large industrial infrastructure projects. In the past, such projects were implemented and operated very often by the State, with finance provided

through government borrowing which often led to adverse effects on government budgets and balance-of-payments problems. The focus of UNIDO's promotional effort lies in developing proper negotiating and contracting frameworks at the national level in developing countries. An international seminar on BOT for project implementation and financing was convened in December 1991 in Bangkok, Thailand, in cooperation with the Asian and Pacific Centre for the Transfer of Technology and the Ministry of Science, Technology and Energy of Thailand.

6. A new UNIDO initiative aimed at generating domestic finance for small-scale industries is the subject of a regional workshop proposed for Latin America and the Caribbean on debt conversion schemes to be operated by non-governmental organizations (NGOs) for industrial development. The objective of the workshop, for which financing is still to be secured, is to enable NGOs from the developed world and their counterparts from developing countries to utilize the debt conversion concept in mobilizing domestic finance for small-scale industries, cooperatives and related industrial and social development projects.

7. Work on innovations has also included the preparation of a special chapter on privatization in Industry and Development: Global Report 1992/1993 (ID/382). This study reveals that the two most important objectives of privatization are the improvement of economic efficiency and the reduction of public budget deficits, including deficits arising from efforts to service external debts. Deficit reductions occur directly as a result of the privatization transactions while efficiency gains occur in the longer run as a new management implements changes in enterprise operations. However, efficiency at the enterprise level depends less on ownership than on market structures and other factors, and efficiency gains from effective competition are likely to be greater than gains from ownership change. Maximum efficiency gains will result from privatization when introduced along with overall price liberalization in factor and product markets. The divestiture of state-owned enterprises in the industrial sector as compared to other sectors (e.g. services) holds the promise of higher efficiency since most industrial products are tradeable. However, while there is a considerable commitment to divestiture by Governments of numerous developing countries, this commitment has not been matched in practice by the speed of divestiture. Delays have occurred because of the very considerable constraints to divestiture arising from economic conditions in those countries, including difficulty in mobilizing resources because of underdeveloped financial and capital market institutions and infrastructure, low domestic savings rates, distorted prices in factor and product markets, a weak administrative capacity, and lack of foreign investor interest. Full divestiture involving asset transfer is likely to be gradual and confined generally to some middle-income developing and East European countries, to countries with the required institutional and administrative capacity, and to countries and sectors attractive to foreign investors. Privatization has to be seen as an integral part of price liberalization including the removal of tariffs and other forms of protection notwithstanding the powerful justification of the infant industries argument for various forms of protection in the early stages of industrialization and for the important role of the State. The chapter concludes that, in the developing countries as well as in the countries of Eastern Europe, Governments still have an important job to do to facilitate industrial development. Governments have to decide between too much and too little intervention, between too much and too little protection, and between too much and too little privatization.

Promotion of direct mobilization of financial resources
(GC.4/Res.21, para. 2 (a))

8. Resource mobilization for specific investment projects is achieved by assisting entrepreneurs in developing countries in the identification, formulation, screening and promotion of specific, potentially viable investment projects which require foreign investment resources for their implementation. UNIDO also assists indirectly the enterprise sector by strengthening existing, and establishing new, national institutional capabilities charged with the task of domestic and external mobilization of investment resources and the improvement of the investment environment for local and foreign private investors. Such assistance is provided through the implementation of comprehensive and integrated industrial investment technical cooperation programmes, which are specially designed for each developing country on the basis of a prior analysis of its industrial policies and programmes, its investment opportunities, its investment climate and how it is perceived by potential foreign partners, its institutional and human skills infrastructure for the identification and promotion of projects, and its need for domestic and external investment resources mobilization.

9. The total value of investment projects in developing countries whose promotion was concluded through UNIDO increased from $556 million in 1989 to $890 million in 1991. These figures represent the total investment of all the projects that were identified, screened, formulated and promoted, and concerning which the foreign partner or the national investor has informed UNIDO that a written agreement has been concluded to cooperate in completing the preparation of the project or its implementation.

10. Project planners in developing countries increasingly turn to UNIDO for help in project financing advice and assistance. They expect UNIDO to widen their options and suggest financial packages most favourable to them, and rely on UNIDO involvement in project preparation and implementation to facilitate lending from development banks and to raise the confidence of potential foreign investors. For example, under a trust fund project financed by the Government of Japan, UNIDO carried out a diagnostic study for rehabilitation and expansion of a salt refining factory in Cameroon, as a result of which the Government of Cameroon allowed the company to receive a loan from a national development bank; UNIDO is expected to assist the company in the selection and purchase of the necessary equipment. Another example is the financing under a trust fund from the Danish Industrial Development Agency of a feasibility study on banana ketchup production in Côte d'Ivoire which led to the formulation of a joint venture with Danish and British partners. Financing for this project is being sought from the International Finance Corporation, the Industrial Fund for Developing Countries of Denmark, the African Development Bank and ECOBANK, a commercial bank in West Africa. The greatest demands for UNIDO trust fund services are in pre-investment and diagnostic studies as well as management services for projects financed by development finance institutions. UNIDO involvement reduces the risks of both lender and borrower and leads to better planning and implementation. Examples of these services are: a revolving trust fund project established by the Islamic Development Bank for UNIDO assistance in pre-investment and rehabilitation studies, with plans for diagnostic studies on five industrial plants in

which the Bank had invested (cement and pharmaceutical plants in the United Arab Emirates, textile and fertilizer plants in Senegal, and a foundry in Tunisia); a standing arrangement to assist the Nigerian Industrial Development Bank in pre-investment studies and project appraisal; an investment opportunity study commissioned by the Nigerian Bank with financing from the World Bank; and a training programme on the preparation of feasibility studies conducted for the benefit of participants from companies supported by the New Nigeria Development Company Ltd.

11. Further information on UNIDO activities for the effective promotion of direct mobilization of financial resources for industrial projects in developing countries is provided in the report on industrial investment promotion activities submitted to the ninth session of the Board (IDB.9/7) and in the Annual Report of UNIDO 1991 (IDB.9/10, chap. III, paras. 34-44 and chap. IV, paras. 21-29).

Cooperation with international, regional and bilateral financing institutions for development
(GC.4/Res.21, para. 2 (b))

12. The UNIDO Industrial Investment Division continues to cooperate and coordinate with a number of agencies, both inside and outside the United Nations system such as the Centre for the Development of Industry of the African, Caribbean and Pacific Group of States and the European Community (CDI ACP-EC), the World Bank, the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency, the United Nations Conference on Trade and Development (UNCTAD), the International Trade Centre UNCTAD/GATT (ITC), the Inter-American Investment Corporation, the project development facilities operated by IFC in Africa, Latin America and the Caribbean and the South Pacific, the regional development banks, the European Bank for Reconstruction and Development and the regional economic commissions.

13. During the biennium 1990-1991 work in the field of feasibility studies and related pre-investment activities was marked by a trend towards modernization analyses of existing industries and evaluation of measures to strengthen industrial enterprises scheduled for privatization. The financing of pre-investment work through special-purpose contributions to the Industrial Development Fund as well as through trust fund agreements considerably increased during the year. Based on the success of investment studies with the Japanese private sector, a second agreement was signed with Japan providing UNIDO with $1.4 million for industrial cooperation for the promotion of investment projects in developing countries. Denmark contributed more than $309,000, within a trust fund agreement to the UNIDO project preparation facility so enabling a quick response to ad hoc requests for investment studies and assisting project promoters in investment decision-making. A contribution of $1.2 million has been obtained from the Government of Italy for a major restructuring project of the agro-food sector in Tunisia.

14. Cooperation with regional development banks has been extended through negotiations with the Inter-American Development Bank. There are good prospects for funding of joint programmes in human resource development, investment promotion and industrial feasibility studies with environmental assessment.

15. Cooperative arrangements for the mobilization of financial resources for industrial development has become one of the main issues discussed at Consultation meetings, the basic objective being to assist the entrepreneurial sector in the developing countries to mobilize financial support necessary to rehabilitate and modernize their industries and implement development projects. To this end, the schedules of Consultation meetings have been modified to give an opportunity to potential partners from developing and industrialized countries to discuss financial and other cooperation. Thereby, identification of investment projects has been encouraged. New and innovative enterprise-to-enterprise cooperative arrangements including funds mobilization and financial cooperation were also discussed at a regional workshop on appropriate strategies for fertilizer sector development. Another regional expert group meeting on policies for the fertilizer industry is under preparation in cooperation with the Fertilizer Association of India to address, inter alia, innovative modalities for the mobilization of financial resources in the sector.

16. The Regional Consultation on the Fisheries Industry for Asia and the Pacific Island Countries (December 1991), in focusing on the issue of adding value to fish products, formulated a number of recommendations including the allocation of more resources to training, to product development and production, and to technical cooperation, through such measures as export-credit guarantee schemes, insurance facilities, investment capital, working capital and bank guarantees. The follow-up to the Second Consultation on the Building Materials Industry (November 1991) is addressed to Governments, financing institutions, UNCTAD, the General Agreement on Tariffs and Trade and ITC for a review of financial resources allocations, loan policies for sustained development and the promotion of investment through fiscal incentives, foreign trade, policy liberalization and tariff reforms. Further information on follow-up activities to Consultations held in 1991 and the expected involvement by Governments, regional and international organizations is provided in the annex to document IDB.9/2 and Corr.1.

Conforming with the priorities of UNIDO's Constitution and the medium-term plan
(GC.4/Res.21, para. 2 (c))

17. The priorities accorded to activities related to the mobilization of financial resources for industrial development in the programme and budgets for the current and previous bienniums are based on the UNIDO Constitution and medium-term plan and approved by the General Conference. Furthermore, these activities are undertaken in response to requests from the Governments of the developing countries concerned. The quality of the outputs of any activity is directly linked to the staff and other resources allocated to it; every effort is made to ensure that the highest possible efficiency, effectiveness and impact are achieved through the implementation of these activities. The extent to which UNIDO has succeeded in achieving a higher level of quality is clearly evidenced by the observed increase in: (a) the number of requests received for investment activities; (b) the value of technical cooperation delivered to developing countries, at their request, during the past few years; and (c) the contributions received from industrialized countries for the financing of technical cooperation programmes for investment promotion in developing countries, for augmenting the staff and financial resources allocated by the regular budget to the industrial investment programme as well as for the expansion of existing Investment Promotion Services (IPS) and the establishment of new ones.

18. Investment forums constitute the last phase of the integrated technical cooperation programmes on industrial investment which UNIDO recommends to

developing countries. Forums are only held after considerable preparatory activities have been successfully completed, and only at the request of the developing country concerned. Similarly, terms of reference for consultants assisting in selection of projects are prepared in consultation with the counterpart government agencies concerned, and no consultant can travel to a developing country to undertake an assignment without the prior approval of both the consultant and his terms of reference by the government authorities concerned (see also paras. 22 and 25 below).

Coordination with subregional and regional development banks and international financing institutions
(GC.4/Res.21, para. 4)

19. In addition to the information provided in paragraphs 10, 11 and 12 above, cooperation between UNIDO and international financing institutions is illustrated, for example, in the organization of the Third Investors Forum to be convened in October 1992, in Warsaw, Poland. IFC, which is one of the co-sponsors of the Forum, has joined forces with UNIDO in order to draw upon the interest of many international participants to take part in the Forum. The European Bank for Reconstruction and Development also intends to participate in the UNIDO Forum, and will use the opportunity to make contacts with potential foreign investors participating in the Forum.

20. Continuity of cooperation with the World Bank Group is ensured through a programme of regular contacts, including high-level meetings. The UNIDO Office at New York follows up on matters of joint interest - e.g. on the development of projects in which UNIDO is to be a provider of technical assistance - keeps Bank staff apprised of current UNIDO activities and facilitates meetings for them in Vienna. Furthermore, a working relationship with the Inter-American Development Bank was developed through high-level missions that led to an exchange of information, invitations to participate in meetings at the Bank and in Latin America, and the inclusion of UNIDO technical staff in Bank missions. In addition, in the areas of investment promotion, the Inter-American Investment Corporation (an affiliate of the Inter-American Development Bank) has begun to cooperate more closely with UNIDO. Also, meetings between the President of the Bank and the Director-General have resulted in a better understanding of how the two institutions can cooperate in the region.

Assistance to developing countries in identifying, designing and financing industrial projects in response to their needs
(GC.4/Res.21, para. 5)

21. The approach of UNIDO to technical cooperation activities aimed at mobilizing foreign investment resources, and identifying and designing industrial projects in response to the needs of individual developing countries is best illustrated by describing the investment promotion programme for Viet Nam. The Viet Nam programme was funded by the United Nations Development Programme, supported by in-kind inputs of various IPS offices with the primary objective of assisting the State Committee for Cooperation and Investment (SCCI) in the identification, formulation and promotion of investment projects and the holding of an investment forum. The programme envisaged utilizing inputs from regional and international organizations such as the Economic and Social Commission for Asia and the Pacific and the World Tourism Organization. At the outset UNIDO provided assistance in improving the investment climate in Viet Nam by strengthening the investment infrastructure in the country, namely SCCI, and by reviewing the investment code for Viet Nam. Workshops and seminars for government officials and local entrepreneurs were conducted on topics such as: non-traditional financing techniques; export to the European Community market; financial analysis; preparation of feasibility, and especially market, studies; negotiations and contracting techniques; and investment project terminology. Promotional documentation was prepared on Viet Nam and a number of seminars and presentations were organized by companies, banks, and other institutions.

22. In a later phase of the technical cooperation programme, a UNIDO team of 15 national and international experts identified, formulated and screened 187 specific investment projects in 16 industrial priority subsectors with a total investment value of $6.8 billion, according to clearly defined terms of reference. These investment projects were subsequently promoted through the UNIDO network of IPS offices, the UNIDO Centres for International Industrial Cooperation in Moscow and Beijing and other focal points in countries not covered by IPS offices. The programme was concluded by holding the Viet Nam Investment Forum in March 1991. Further information regarding UNIDO efforts under the above heading is given in paragraph 8 above.

II. UNIDO ACTIVITIES AND THE EXTERNAL DEBT

UNIDO technical cooperation and the alleviation of the debt burden
(GC.4/Res.22, paras. 2 and 3 (a))

23. Technical cooperation activities provide important contributions to an alleviation of the external debt burden. When successful, such activities increase earnings of foreign exchange through exports, or increase savings of foreign exchange through domestic products which substitute for imports, or activities which increase operational efficiency at the enterprise level thus indirectly increasing savings/earnings of foreign exchange. Thus virtually all successful technical cooperation activity tends to alleviate the debt burden in developing countries, and UNIDO continuously strives to increase the quality of its assistance. Moreover, the Secretariat, with the full support of the Industrial Development Board, has refined and improved its methodologies and techniques for appraisal and evaluation as described in the Annual Report of UNIDO 1991 (IDB.9/10, chap. V, paras. 1-20).

24. In a more general sense, in order to alleviate the negative effects of external debt, UNIDO has continued to develop and implement projects and programmes geared to improving the competitiveness of developing countries' industries and enhancing their capabilities to effectively use indigenous resources. Opening up possibilities for exportation through the manufacture of high value-added products and reducing the dependency on imports through locally manufactured products from locally available raw materials have been common objectives of technical assistance and thus contributed to relieving external debt. Projects in the agro-industries, chemical, engineering and metallurgical sectors are designed to achieve an increased and more diverse industrial output, to meet international quality requirements, to facilitate purchase and replacement of equipment, to train personnel and improve the qualifications of managers. These projects have incorporated measures leading to improved maintenance and repair activities at factory level, rehabilitation of existing installations where feasible, and have assisted in subcontracting and equipment selections. Thus in the

food sector technical assistance was provided to Hungary to upgrade the technical level of the Development and Quality Institute of the Frozen Food Industry in order to enable the Institute to fulfil the quality requirements of the European Community from 1992 onwards. Under the Regional Africa National Hides and Skins, Leather and Leather Products Improvement Scheme assistance was extended to Tanzanian leather companies in effluent treatment and quality improvement of the products manufactured. In the petrochemical sector projects were implemented in Indonesia, Nigeria, the Philippines and Thailand which aimed at substituting imports by products locally manufactured using indigenous raw materials, such as rubber, and at creating the possibility to export goods with higher added-value. While preparing for its participation in the Third World Conference on Non-metallic Minerals to be held in Brazil in 1993, UNIDO is currently focusing its programme of integrated utilization of non-metallic minerals on economic aspects and investment opportunities. Strategic policy advice was provided to Jamaica for the ecologically sustainable development of the bauxite/alumina sector which is the major foreign exchange earner of the country. A UNIDO project in Albania improved the technology for briquetting of chromium ore fines which now fulfil export requirements.

25. Examples of a number of pipeline projects aimed at import substitution or export promotion are the following:

- Towards economic liberalization undertaken by the Government of Ethiopia, assistance would be provided in the preparation of a comprehensive programme for the development of export industries. The project would provide the basis for the Government authorities to discuss the programme with bi- and multilateral donors, technical agencies, financial institutions, domestic and foreign investors.

- In China a programme would be prepared with the aim of identifying valuable investment projects to facilitate the creation of joint ventures with French building material companies.

- Through a project in trade and investment promotion, practical cooperation is to be strengthened between Eastern Caribbean and Latin America to examine opportunities for export growth from Eastern Caribbean countries, involving joint ventures designed to expand productive capacity.

- A project in Fiji aims at assisting the Fiji Trade and Investment Board and local entrepreneurs to mobilize resources needed for a number of industrial investment projects discussed at the Fiji Investment and Trade Forum (November 1991), including joint ventures and other forms of industrial cooperation, and to create an environment conducive to attracting foreign investment resources.

- Africa would be given assistance through a project aimed at promoting trade and export of medicinal and aromatic plant products from Africa to European countries, particularly Germany.

- A project in Nigeria, to be funded from national and multiple donor sources, would facilitate the preparation of a comprehensive support programme for strengthening the external trade sector.

- A project in Zambia will assist the Government to formulate a comprehensive framework of policy and support measures necessary to facilitate and implement the privatization programme.

- High-level advisory assistance in privatization would be provided to Hungary to enhance Hungarian efforts in the transition to a free-market economy.

26. Pre-investment activities which result in direct foreign investment, or in efficiency increases through joint venture activities, also contribute to an alleviation of the debt problem. The information provided in paragraph 9 above is of direct relevance to the subject. In addition, activities promoted by the UNIDO System of Consultations, as described in paragraphs 15 and 16 above, contribute in a similar manner.

27. With regard to contract negotiations, growing international competition and rising development costs for advanced technologies are changing deeply the negotiating conditions and the structure of the market for technology. The higher prices, the difficult access to strategic know-how and the risks of acquisition of inadequate or already obsolete technology are real threats to developing countries, with serious implications to their external balance of payments. For these reasons, UNIDO is continuing its work aimed at strengthening the capacity of developing countries to manage efficiently the process of acquisition and negotiation of advanced technology in order to reduce the direct and indirect costs of imported technology and to support the export of their own know-how. Hence UNIDO is promoting the development of an expert system on contract drafting and negotiation of technology transfer which is intended to contribute to faster and more effective technology transactions. UNIDO has also embarked on an educational programme aimed at improving the negotiation skills of government officials, entrepreneurs and professionals in charge of conducting technology transfer negotiations or evaluating technology transfer agreements by making them aware of issues directly related to contracts as well as those that influence technology options and the behaviour of parties. Its educational programmes are also being extended to take into account issues related to specialized and sensitive fields such as complex technology sectors, e.g. steel industry, biotechnology and environmentally-sound technologies. Further details of these activities are provided in the Annual Report of UNIDO 1991 (IDB.9/10, chap. III, paras. 14-33).

28. With regard to the financing of industrial projects, reference is made to the information provided in paragraphs 12, 13, 14, 21 and 22 above.

<u>UNIDO inputs in the current methods of industrial financing and the development of innovative approaches</u>
(GC.4/Res.22, para. 3 (b))

29. Information is provided in paragraphs 13, 21 and 22 above on the promotion and implementation - in collaboration with developed and developing countries and with development financing institutions - of UNIDO inputs in the current methods of industrial

financing geared to the alleviation of the debt problem.

30. Information on the development, within UNIDO's area of competence, of innovative approaches for specific programme and project proposals geared to the alleviation of the debt problem is provided in paragraphs 5, 6, 7, 12 and 13 above, as well as the Annual Report of UNIDO 1991 (IDB.9/10, chap. IV, paras. 32-36).

Consideration of the debt problem and the priorities of developing countries in the planning, formulation and implementation of UNIDO activities (GC.4/Res.22, para. 3 (c))

31. The priorities of developing countries, as well as of UNIDO, as expressed both in the medium-term plan and the biennial programme and budgets are as follows: human resource development; development and transfer of technology; industrial rehabilitation; small- and medium-scale industries; and environment and energy. In addition, the three elements which are common to industrial development are the mobilization of financial resources for industrial development, economic cooperation among developing countries and subregional industrial cooperation, and integration of women in industrial development. These five priority areas and three common elements form the basic planning parameters in the planning, formulation, and implementation of all UNIDO activities, and take into account the need to alleviate the debt burden of developing countries.

32. In the micro-planning area, the subprogrammes "Project Appraisal" and "Programme Development Support", as reported in paragraphs 3.34 to 3.43 and 3.48 to 3.55 of the programme and budgets, 1992-1993 (GC.4/42), ensure that UNIDO technical cooperation activities are formulated in accord with the basic parameters. Information on the success of these subprogrammes in attaining their objectives is provided in the Annual Report of UNIDO 1991 (IDB.9/10, chap. II, paras. 44-48, and chap. V, paras. 1-9).

33. With regard to the success of UNIDO activities in meeting their priorities and objectives, the subprogramme "Evaluation" (GC.4/42, paras. 2.47-2.54) is the instrument that provides managers, donor and recipient countries with analytical and objective information on the strengths and weaknesses of all UNIDO activities. Information on the performance of the subprogramme and the quality of implementation of activities measured against the basic parameters, which are in line with agreed priorities, is provided in the Annual Report of UNIDO 1991 (IDB.9/10, chap. V, paras. 10-20).

Industrial Development Fund (GC.4/Res.22, para. 3 (d))

34. The overall philosophy and programming modalities of UNIDO-managed funds, in particular the Industrial Development Fund (IDF) are to aim at optimal utilization of resources. For that purpose it is essential to focus on projects that create multiplier effects and to use resources as seed money to mobilize further extrabudgetary resources in a complementary manner. Investment promotion activities are given high priority under IDF. During the period 1 January 1986 to 30 June 1992, projects for an amount of $53.2 million were approved for investment-related promotional activities in accordance with the priorities of UNIDO, the recipient and donor countries.

35. Through individual projects, UNIDO provides direct assistance in investment promotion; it also assists countries to create and sustain a legal, institutional and business environment that supports international investment and to create or strengthen national institutions that can gradually promote their own projects. The projects related to investment promotion and financed under IDF cover a wide range of activities: (a) institution-building projects for the establishment or strengthening of investment promotion offices or export-processing zone organizations; (b) the network of Investment Promotion Services and delegates' programmes; (c) investment promotion meetings and related preparatory activities, including investment project identification, formulation and promotion, as well as the preparation of investor guides; (d) feasibility, pre-feasibility and opportunity study projects; (e) preparation of investment-related manuals; (f) enterprise-to-enterprise projects such as the establishment of joint ventures, execution of turnkey projects, co-production, subcontracting and licenses; (g) industrial subcontracting; and (h) projects for strengthening the cooperation between UNIDO and development finance institutions.

36. The programme approach, which follows a multifaceted approach to problem-solving through the elaboration of integrated programmes of policy advice, technical cooperation and investment projects all focused on the development of an industrial system, is an effective tool for funds mobilization, both for the bilateral and multilateral funding of technical cooperation projects and for the financing of investments by development finance institutions and the private sector. The elaboration of integrated programmes, in contrast to individual projects, is expected to improve the quality of UNIDO assistance by increasing its impact on industrial development and should enable UNIDO to channel larger amounts of technical cooperation in a more efficient and cost-effective way. Pilot plants and research-related projects can serve to generate further financial flows by demonstrating the feasibility of using new technologies or processes for industrial production, thus facilitating investment decision-making. In conclusion it should be stressed that, in view of the continuous practice of zero-growth budgets, the primary function of UNIDO-managed funds to mobilize further extrabudgetary resources is particularly significant for the Organization and the developing countries whose industrial development needs it serves.

III. ACTION REQUIRED OF THE BOARD

37. The Board may wish to take note of the present report.

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EVALUATION OF THE OBJECTIVES AND FUNCTIONS OF UNIDO IN VIEW OF RECENT CHANGES AND DEVELOPMENTS IN THE WORLD

Report by the Director-General

Summary

In accordance with resolution GC.4/Res.20 of the General Conference, reports on steps taken to ensure that the activities of UNIDO are consistent with the efforts of developing countries to ensure their active participation in the world economy.

CONTENTS

	Paragraphs	Page
Introduction	1 - 3	1
Chapter		
I. PARTICIPATION OF DEVELOPING COUNTRIES IN CURRENT CHANGES OF THE WORLD ECONOMY	4 - 14	2
II. POLICY RESPONSE BY UNIDO TO CURRENT CHANGES IN THE WORLD ECONOMY	15	3
III. ACTION REQUIRED OF THE BOARD	16	3

Introduction

1. At its fourth regular session, the General Conference adopted resolution GC.4/Res.20 in which it noted the report submitted by the Director-General to the eighth session of the Board on the evaluation of the objectives and functions of UNIDO in view of recent changes and developments in the world (GC.4/18-IDB.8/40) and raised a number of issues related to the subject. In particular, paragraphs 1, 2, 5 and 6 of that resolution called for specific action by the Director-General.

2. Paragraph 1 of resolution GC.4/Res.20 requested the Director-General to ensure that the voluntary contributions he accepts on behalf of UNIDO are in conformity with the objectives and policies of the Organization. Paragraph 2 requested the Director-General to ensure that the increased requests for technical cooperation from UNIDO do not detract from available resources for the industrial development of the developing countries. Information relevant to those mandates is provided in the documents on the Industrial Development Fund (IDF) and other voluntary contributions (IDB.10/2, chap. II and IDB.9/10, chap. VIII, paras. 14-20 and appendix G) and on guidelines and procedures governing acceptance and funding under special trust funds, IDF and the regular budget (IDB.10/10, IDB.10/15 and UNIDO/DG/B.18/Rev.1).

3. Paragraphs 5 and 6 of the resolution requested the Director-General to ensure that UNIDO promotes the active participation of developing countries in the current changes of the world economy and that the activities of UNIDO are consistent with the efforts of developing countries to ensure that participation. In addition to the report on the evaluation of the objectives and functions of UNIDO in view of recent changes and developments in the world mentioned in paragraph 1 above (GC.4/18-IDB.8/40), in response to United Nations General Assembly resolution 45/196, the Director-General also reported to the Board at its eighth session on industrial development cooperation and diversification and modernization of productive activities in developing countries (IDB.8/32). That report provided, inter alia, a basis for an examination of current and future changes and developments in the world, including the industrial sector. It contained 15 recommendations to the General Assembly, including a proposal for a study on the structure of world industry from the long-term perspective. Subsequently, at the request of the

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General Assembly, the recommendation for a study on the structure of world industry was elaborated and submitted to the ninth session of the Board (IDB.9/5). Against that broad background, the present report focuses on efforts to ensure the participation of developing countries in current changes of the world economy.

I. PARTICIPATION OF DEVELOPING COUNTRIES IN CURRENT CHANGES OF THE WORLD ECONOMY

4. The active participation of developing countries in the world economy implies a focus on cross border transactions, i.e. foreign trade, both imports and exports, and cross border resource flows including capital, technology, information and management/marketing resources embodied in foreign direct investment. UNIDO has been active in carrying out concrete steps in promoting those activities and in assisting developing countries in strengthening their capacities to facilitate an expansion of the diversity and scale of such cross border transactions. Thus, UNIDO's contribution, through concrete measures to increase the developing countries' participation in the global economy, can be characterized as both direct and indirect. Document GC.5/6-IDB.10/20 on the mobilization of financial resources for industrial development and the external debt and industrial development contains information on concrete actions taken by the Director-General to facilitate the active participation of developing countries in the world economy.

5. The essential point of resolution GC.4/Res.20 is that UNIDO activities be seen within the context of recent changes and developments in the world, as made explicit in its title. The Director-General has given high priority to the Global Report, published annually as a formal and substantive tool for identifying major global developments and their impact on industrialization. In Industry and Development: Global Report 1992/93 (ID/382),* the following major changes in the global economy received attention:

(a) Regional disintegration (chaps. I, II, IV);

(b) The current recession and its structure in Western Europe and North America (chaps. I, III);

(c) New perceptions concerning technological growth, labour productivity and human resource development in the 10 world regions (chap. II);

(d) The marginalization of the least developed countries: progress in the 1970s and stagnation in the 1980s (chaps. I, II);

(e) The demise of central planning and the rise of privatization (chaps. I, IV).

Regional disintegration

6. In 1991, for the first time in more than 50 years, global output declined because of the recession and the collapse of the centrally planned economies of Europe. The disintegration of the former Union of Soviet Socialist Republics meant not only the dissolution of a political entity, but signalled the demise of a central planning strategy for industrialization. The role of market forces and price liberalization have now become nearly universal as a strategy for industrial development (Industry and Development: Global Report 1992/93 (ID/382), chaps. I, II, IV).

7. UNIDO has modified its approach to industrial planning in recent years, including such concepts as industrial master plans, and further modifications have included the development of a new approach, the strategic management of industrial development, as described in the progress report on new concepts and approaches for cooperation in respect to industrial development in conformity with Article 2 (c) of the Constitution (IDB.8/39-GC.4/17, paras. 39-41). This strategic management approach has been followed by a large number of African countries and is now being introduced in the Asian region.

The current recession and its structure in Western Europe and North America

8. The most recent recession has proved to be one of the longest, and although world growth is expected to expand in 1993, recovery in the developed countries will remain sluggish. The analysis presented (ibid., chaps. I, III) identifies those elements in the recession which form parts of normal business cycles and those elements of a longer-term nature. In particular, everywhere in the world economy employment continues to be a major concern. The recession in the richer countries combined with longer-run factors has resulted in 30 million unemployed in the countries of the Organisation for Economic Cooperation and Development (OECD) in 1992. There is now large-scale open unemployment in the former centrally planned economies. In developing countries there are persistent complaints that industrial growth, even when it is rapid, fails to generate jobs at the rate needed to keep up with the growth of the labour force. These are not unconnected developments since a steadily expanding economy in the OECD countries is essential for rapid growth everywhere. However, it should be emphasized that the fruits of rapid industrialization are as evident in extra employment in other economic sectors as in manufacturing. Chapter III of Industry and Development: Global Report 1992/93 (ID/382) contains a structural analysis of eight Asian economies and demonstrates the symbiotic relationships between manufacturing and agriculture and between manufacturing and services.

9. Information on technical cooperation activities that have the objective, inter alia, of strengthening the symbiosis between manufacturing and agriculture and manufacturing and services is contained in the Annual Report of UNIDO 1991 (IDB.9/10, chap. II, paras. 62-72, 115-125).

New perceptions concerning technological growth, labour productivity and human resource development

10. Two major elements, institutions and human skills, go a long way in explaining interregional differences in technical progress and hence industrial performance. Raising productivity in manufacturing does not necessarily require natural resource endowments; more essential is investment in the building of institutions and human capabilities and skills. In comparing the industrial performance of the 10 major regions of the world, the Global Report for 1991/92 (ID/376) focused in chapter II on the role of institutions and the institutional infrastructure in those regions.

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* Scheduled for issuance in late October 1992.

The Global Report for 1992/93 (ID/382) examines in chapter II interregional growth performance from the perspective of human skills and training, since changed perceptions of the new roles of technology in industrial production could lead to fundamental policy changes in human resource priorities for industrialization. The analysis also contains an examination of a cooperative venture between Bangladeshi entrepreneurs and Daewoo, from the Republic of Korea, with an essential training component.* Bangladeshi staff were able to learn not only narrowly defined production skills, but also the know-how and skills embodied in the system of marketing and management of Daewoo and its dynamic, effective corporate culture.

11. The importance of human resource development has long been recognized by UNIDO, and technical cooperation activities in this area are described in the Annual Report of UNIDO 1991 (IDB.9/10, chap. II, paras. 141-148) and the progress report for 1992 (IDB.10/18, chap. II). These activities are useful, and just as useful are the capabilities and skills transfer that occur as a result of UNIDO's promotion of enterprise-to-enterprise cooperation (IDB.9/10, chap. III, paras. 34-44 and chap. IV, paras. 32-35). However, attention may also need to be directed towards how the intangibles of the corporate cultures in the most successful business firms can be transferred successfully. A related issue is that, although the importance of investment in human capital is widely recognized, attention may need to be directed towards identifying the specifics in making such investment efficient.

The marginalization of the least developed countries

12. While Latin America is witnessing a revival in growth and inward capital flows and growth in most Asian economies is virtually self-sustained, sub-Saharan Africa constitutes the most serious challenge to the international development community. During the decade of the 1970s, of the world's poorest 50 countries (those in which the majority of the population exists on the equivalent of less than one dollar per day), some 10 were able to escape from the category of the poorest. During the 1980s, that number totalled only four. Almost all of those 50 poorest countries are in sub-Saharan Africa. Unless the world economy recovers to the pace of growth observed in the 1970s, nine out of ten of the 50 poorest countries will remain in that category for at least another decade. During the 1970s and 1980s, the income levels of 26 developing countries suffered continuous decline, and of those, seven joined the ranks of the 50 poorest countries. The list of countries that lost income from 1970 to 1990 includes some of the world's poorest and their losses were staggeringly large. For example, Mozambique's per capita income dropped from $283 to $117 (-59 per cent); Liberia from $536 to $227 (-58 per cent); Benin, Chad, Ghana, Madagascar, Sierra Leone, Uganda and Zaire all lost between 25 and 50 per cent of their income during those two decades. Those which lost income between 3 and 25 per cent include the Central African Republic, Comoros, Ethiopia, Guinea, Guinea-Bissau, Mauritania, Niger, and the United Republic of Tanzania. In contrast, during the period 1970 to 1990, some 33 out of the original 50 poorest countries made a positive gain in income, of which 11 countries at least doubled their per capita income during the 20-year span, in spite of their higher than average population growth rates. Those include Egypt, Indonesia, Thailand, and such land-locked countries as Bhutan, Botswana and Lesotho, as well as a number of small island countries such as the Maldives and St. Vincent.

13. UNIDO recognizes the priority claims of the poorest countries. Information on concrete UNIDO actions with respect to those countries is contained in the Annual Report of UNIDO 1991 (ibid., chap. IV, paras. 8-15, and appendix F).

The demise of central planning and the rise of privatization

14. Findings shown in chapter IV of the Global Report for 1992/93 (ID/382) indicated that the two most important objectives of privatization are the improvement of economic efficiency and the reduction of public budget deficits, including deficits arising from efforts to service external debts. The analysis found that, despite the considerable commitment by Governments to the divestiture of state-owned enterprises, delays have arisen because of economic conditions, including difficulties posed by underdeveloped financial and capital market institutions and infrastructure, a weak administrative capacity, and lack of foreign investor interest. Further highlights of that analysis that are also relevant to the present discussion are contained in paragraph 7 of document GC.5/6-IDB.10/20.

II. POLICY RESPONSE BY UNIDO TO CURRENT CHANGES IN THE WORLD ECONOMY

15. Concrete actions taken in response to current changes in the world economy are reflected in the technical cooperation activities delivered by UNIDO. The current changes in the international economic environment have influenced the content of such activities or prompted the development of new ones, as described in the documents referred to in paragraphs 4, 7, 9, 11, 13 and 14 above. At the same time, as was pointed out to the Special Advisory Group to the Director-General at its last session in May 1992, sweeping changes have emerged in the operating environment of UNIDO. Thus the redefinition by the United Nations Development Programme of the relationships in the tripartite system of technical cooperation has resulted, inter alia, in an increasingly unpredictable flow of resources to UNIDO. Furthermore, the status of UNIDO's clients and the nature of services required are drastically changing as a result of economic liberalization in developing countries and the introduction of market economy principles in the countries of Eastern Europe. These trends are inducing a marked shift in the demand for UNIDO services towards sectoral analyses, policy advice and work at the programme level. The challenge for UNIDO will lie in the strengthening of its capability to design and implement integrated programmes drawing upon the full range of expertise available in the Organization.

III. ACTION REQUIRED OF THE BOARD

16. The Board may wish to take note of the present report and provide guidance on further activities to be developed by UNIDO.

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* See box in chapter II, "Bangladesh's success with garment exports: what South-South cooperation in training can do", ibid.

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ADMINISTRATIVE MATTERS: JOINT INSPECTION UNIT

Activities of the Joint Inspection Unit in 1991 and early 1992 of relevance to UNIDO

Note by the Secretariat

Summary

Describes briefly the activities of the Joint Inspection Unit (JIU) during 1991 and early 1992, and deals with matters of relevance to UNIDO such as grade overlaps, advantages and disadvantages of the post classification system, and the United Nations system cooperation with multilateral financial institutions.

CONTENTS

	Paragraphs	Page
Introduction	1	1
Chapter		
I. JOINT INSPECTION UNIT REPORTS COMPLETED	2 - 3	1
II. REPORTS SUBMITTED BY THE JOINT INSPECTION UNIT OF DIRECT INTEREST TO UNIDO	4 - 25	2
III. ACTION REQUIRED OF THE BOARD	26	4

Introduction

1. In accordance with Industrial Development Board decision IDB.1/Dec.22, the Director-General notified the Secretary-General of the United Nations of the acceptance by UNIDO of the statute of the Joint Inspection Unit (JIU), effective 1 January 1986. Under the terms of the statute, 1/ the Unit is a subsidiary organ of the legislative bodies of the organizations that accept its statute. Reports of the Unit shall be submitted with the comments of the executive heads of the organizations concerned to the competent organs of those organizations; the executive heads of the organizations shall also ensure that recommendations of the Unit approved by their respective competent organs are implemented as expeditiously as possible. At its forty-sixth session, the General Assembly considered the report of the Joint Inspection Unit on its activities during the period 1 July 1990 to 30 June 1991. 2/ The work programmes of JIU are drawn up in accordance with article 9 of its statute and take into account requests and suggestions made by the participating organizations. The document containing the work programme for 1992 and the nucleus of the work programme for 1993-1994 3/ has been circulated to Member States and participating organizations by the Secretary-General. It will also be made available to the Board at its tenth session, as well as the relevant reports completed by the Unit in 1991 and early 1992.

I. JOINT INSPECTION UNIT REPORTS COMPLETED

2. Since the issuance of the most recent note to the Board on the subject (IDB.8/42), the following reports of the Unit have been prepared and circulated for consideration and/or action:

Report on the rotation of staff within the United Nations (JIU/REP/91/3);

1/ General Assembly resolution 31/192, annex.

2/ Official records of the General Asssembly, 46th session, supplement no. 34 (A/46/34).

3/ A/46/89.

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Follow-up report on the management advisory service of the United Nations (JIU/REP/91/4);

Grade overlap (JIU/REP/91/5);

Assessment of the annual deficits of the Administrative and Operational Services Cost Fund (AOSCF) of the technical cooperation programme of the International Civil Aviation Organization (ICAO) (JIU/REP/91/6);

Advantages and disadvantages of the post classification system (JIU/REP/91/7);

United Nations system cooperation with multilateral financial institutions (JIU/REP/92/1).

3. Of the above, three reports related to grade overlap (JIU/REP/91/5), advantages and disadvantages of the post classification system (JIU/REP/91/7) and United Nations system cooperation with multilateral financial institutions are of direct interest and relevance to UNIDO (JIU/REP/92/1, Parts I and II).

II. REPORTS SUBMITTED BY THE JOINT INSPECTION UNIT OF DIRECT INTEREST TO UNIDO

Grade overlap (JIU/REP/91/5)

4. For more than a decade there has been an overlap in the salaries between senior General Service and junior Professional staff categories in the United Nations system. Although this degree of overlap has been accepted by the agencies, the continuous expansion of the overlap to lower levels of the General Service category has caused concern in some agencies.

5. The Food and Agriculture Organization of the United Nations (FAO), which has experienced a growing overlap in the remuneration of these two categories, requested the JIU to review the reasons for the overlap in terms of emoluments and to assess its potential impact.

6. The report indicates that the cause of the overlap lies primarily in the different methodologies used to set and adjust levels of remuneration. Professional salaries are founded on the Noblemaire principle which compares the salaries of international civil servants with the most highly paid civil service of a Member State. Salaries of the General Service staff are determined on the basis of the best prevailing rates of the local area. The application of these methodologies as approved by the United Nations General Assembly has led to anomalies in the compensation packages. The report states that salaries of the General Service staff continue rightly to follow local conditions of service, which is a key to the competitiveness of the United Nations. On the other hand, salaries of Professional and higher categories of staff have not been increased at a level established by the various studies undertaken by the International Civil Service Commission. Had this been done, it would have averted the present overlap with the General Service salary scale. Moreover, apart from the influence of the different methodologies, other factors, such as the freeze on Professional salaries, inflation and the exchange rates vis-à-vis the United States dollar have had a significant impact on the widening area of overlap.

7. The report examines the evolution of the grade overlap in four duty stations: Rome, Geneva, New York and Paris. It is pointed out that the incidence of overlap does not exist in the majority of duty stations around the world where there is a substantial gap between local and professional pay scales. Based on this first study on the subject, it is concluded that the incidence of overlap is confined to headquarters duty stations. At the time of the study, the overlap in Vienna was G-8/XI (G-7/XI of the new grade structure) with P-3/IV.

8. According to the report, the evolution of the grade overlap seems to have created some personnel management problems in the areas of recruitment, promotion and career development and has the potential of provoking a dangerous distortion in the United Nations salary system. Potential Professional recruits may be reluctant to accept the logic that they will receive less than those whom they may be expected to direct; in the area of promotion and career development, some senior General Service staff members have expressed a reluctance to compete for promotion to the Professional category. Other concerns relate to adverse effects on staff morale and the effect the grade overlap has on pensions when a General Service staff member joins the Professional category.

9. While considering that such levels of overlap are incompatible with sound management principles and make it impossible to pursue a realistic career development path from General Service to Professional category, the report concludes that the concern for the problem could diminish. The reason given for this is the recent recognition by the United States Pay Agent that the salaries of the United States Civil Service, the comparator under the Noblemaire principle, are some 28 per cent behind the private sector and that steps (admittedly tiny) are to be taken by the Executive Board of the United States Government to rectify this situation over time (10 years).

10. The report looks into the possibility of a one-grade structure as a possible solution to salary overlap. It concludes however, that the introduction of a one-grade structure might not be a solution to the problem as it would mean that the Noblemaire principle cannot be maintained without provoking a serious negative distortion of General Service salaries, especially at the main headquarters duty stations, because salaries for General Service staff would no longer be based on the best prevailing rates of the local areas but rather on the comparator State. Any action to change the two-grade structure, if decided to be necessary, would thus require well founded research and a new formula that could be applied fairly to the whole system world wide.

11. The JIU did not make any recommendations on the subject but welcomed the decision of the General Assembly of the United Nations (resolution 45/241, section XIV, of 21 December 1990) requesting the International Civil Service Commission to consider the relativities between the terms and conditions of staff in the Professional and higher categories and those in other categories.

12. The full text of the JIU conclusions on grade overlap are contained in chapter IV of the JIU report, while the comments of the Secretary-General are contained in a note to be

submitted to the General Assembly at its forty-seventh session (A/47/140/Add.1).

Advantages and disadvantages of the post classification system (JIU/REP/91/7)

13. The JIU study on the advantages and disadvantages of the post classification system was undertaken at the request of the United Nations Educational, Scientific and Cultural Organization (UNESCO). JIU was requested to analyse the results of the application of the system in the United Nations common system and to seek ways of improving it and making it somewhat more flexible while maintaining the integrity of the objectives of the concept of post classification. The post classification system was established in response to a need felt by the organizations of the United Nations common system to introduce new techniques of personnel management. Advanced technologies and the responsibility of the organizations to have a staff of diverse competences and experiences were the main criteria in choosing the post classification concept as a valuable tool ensuring "equal pay for equal work" to everyone.

14. One of the recommendations points to ways in which post classification can be implemented by highly trained specialists under the umbrella of strengthened personnel services. In the case of UNIDO, classification services are performed in the Office of the Deputy Director-General, Department of Administration. Also of relevance to UNIDO is the recommendation concerning implementation of the classification results. In the case of UNIDO, there is a discrepancy between the actual classification of the level of a post and the level of a post approved in the biennial programme and budgets. Regarding the recommendation relating to appeals mechanisms, these are well-established in UNIDO.

15. Other recommendations relate to: the organization of training courses for classifiers and programme managers; the introduction of automated processes for classification; the need to make classification sufficiently clear to the staff in order to achieve broad-based acceptance; the questions of reclassification of posts; the diminishing use of the P-1 and P-2 levels and the possibility of reviving those levels through the scaling down and underfilling of posts in order to attract qualified junior staff; as well as the possibility of introducing some kind of flexibility in the implementation of the classification system, for instance through personal promotion or by linking grades. The full text of the JIU recommendations is contained in chapter V of the report.

16. Thirteen organizations of the common system, including UNIDO, participated in the study. Administrations as well as staff representatives in a number of the organizations were consulted. In addition, the Consultative Committee on Administrative Questions and the International Civil Service Commission were consulted on several occasions. Following a description and analysis of the application of the system by the organizations, the Inspector concludes that, notwithstanding some problems and the fact that disadvantages seem to be more often discussed than advantages, the system is a sound and useful management tool. In that connection, a number of recommendations are put forward for overcoming some of the disadvantages and at the same time enhancing the advantages that the post classification concept provides to the organizations.

United Nations system cooperation with multilateral financial institutions (JIU/REP/92/1, Parts I and II)

17. The objective of the JIU study was to examine the cooperative activities of United Nations system agencies with the multilateral financial institutions, which would permit both groups to provide the best possible services and programmes to developing countries. In conducting their research, the Inspectors sought to determine which agencies were cooperating with each other in operational activities for development and the reasons for that cooperation. They also sought to identify joint policy, project, and programme activities, as well as the scope, trends, constraints, and possibilities for increasing such efforts in the future. Most importantly they focused on the significant steps needed to improve operational cooperation between the two groups of organizations.

18. The Inspectors paid several visits to the World Bank, as well as to the African, Asian, and Inter-American Development Banks. They visited many of the United Nations system agencies, primarily at their headquarters but at the regional and country levels as well. They also asked all those agencies about their cooperation with other multilateral financial institutions. They then visited the Commission of the European Communities since a number of organizations have been increasing their operational activities with that body, although it is, of course, not strictly a financial institution. In the course of their work, the Inspectors gathered and reviewed some 300 policy, programme and project reports and analyses of changing patterns of development cooperation, and conducted more than 100 interviews.

19. In the course of those interviews and reviews the Inspectors found no instance of effective cooperation and coordination occurring spontaneously for their own sakes, resulting from admonitory resolutions of the competent international bodies, proceeding from high-level executive accords, nor resulting from regularly scheduled meetings of headquarters representatives. 4/

20. That notwithstanding, the Inspectors found that better cooperation can only be built on results. Whatever the role may be of coordination mechanisms, liaison efforts and policy statements, the ultimate proof lies in innovative and effective performance. The second volume of the report thus presents 22 examples (including UNIDO) of recent programme initiatives, operational reviews, and investment and project preparation activities in United Nations system organizations that could serve as examples for other organizations.

21. In their endeavour to identify possibilities for improving cooperative relationships between the organizations in the common system and multilateral financial institutions, the

4/ JIU/REP/92/1, Part 1, Executive summary.

Inspectors focused on the elements of mutually perceived advantage. They found that over the past decade the provision of technical cooperation expertise had become an area of intense competition. They thus sought to define those characteristics of competitiveness which United Nations system agencies had employed successfully in practice, which they then presented as 10 factors helpful to developing successful cooperative relationships in operational activities for development. These are:

> Performance, niche, value-added requirement, pragmatic relationships, strategic approach, market-oriented outlook, organizational flexibility, factual self-promotion, competitiveness and quality control. 5/

22. As the Inspectors pointed out, attention to the above factors was not a sure guarantee of success, although it would greatly enhance the prospects of successful cooperation. They thus urged agencies to develop the ability to: (i) identify areas in which they have, or can acquire, a comparative advantage; and (ii) expand that niche by adjusting to market demands, delivering timely and reliable service, offering value-added component and adopting procedures to fit the requirements of the financing institutions.

23. Of particular relevance to UNIDO is the second of the two recommendations on cooperation with multilateral financial institutions in which the Inspectors recommend that executive heads and governing bodies sustain "a competitive posture" by including as many as possible of the following topics in their periodic deliberations on technical cooperation activities, concentrating on results achieved, lessons learned, changing circumstances, emerging trends, and proposals for future strategies and initiatives: significant cooperative actions with multilateral financial or other development institutions; organizational reviews to consider operational improvements; improved or new developmental strategies; new techniques or technologies being successfully applied to enhance development; possibilities to help the Organization to strengthen its operational activities; and most difficult but perhaps most important of all, tightening the focus of the overall programme by identifying and further developing successful services and activities (i.e. what the Organization "does best"), while also eliminating those that are obsolete, irrelevant or unsuccessful.

24. The 10 factors identified by the Inspectors hold true for other activities of UNIDO as well. Attention of senior management has been drawn to them. In the preparation of the programme and budget proposals for the 1994-1995 biennium, the need for creative and sustained activities in an increasingly competitive environment was underscored, as was the essentiality of focusing on those outputs and activities that the Organization does best. Similarly, the different proposals for restructuring UNIDO over the past 18 months have been governed by the desire to rise to the challenge posed by the sweeping changes in the external environment. It will be recalled that the thrust of the new structure proposed for UNIDO was directed towards ensuring a sharper country focus, concentrating technical expertise in operationally autonomous units, enhancing the quality of outputs and ensuring closer integration of services through greater teamwork.

25. The JIU report is not alone in drawing attention to the growing external pressures that cannot be met by what the Inspectors term "usual abstract and generalized liaison contacts, official missions, cooperative agreements, data exchanges and seminars." As the Inspectors note, both the Nordic-United Nations project report: The United Nations in development: Reform issues in the economic and social fields: a Nordic perspective (Stockholm, 1991) and a report prepared for the Danish Government on effectiveness of multilateral agencies at country level (Copenhagen, 1991) have likewise drawn conclusions of particular significance to the work of the United Nations system. The current marginalization of the system agencies can best be countered by improving operational performance, revitalizing the agencies' advisory and analytical roles and providing effective alternatives and complements to the programmes of the multilateral financial institutions. Despite the difficulties inherent in focusing on areas of comparative advantage and sustaining the related institution building, the Inspectors note that agencies might take heart at the success which five agencies (including UNIDO) have already had in carrying out in-depth operational reviews.

III. ACTION REQUIRED OF THE BOARD

26. The Board may wish to take note of the JIU reports and the comments made by UNIDO thereon.

5/ Ibid.

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HEADQUARTERS AGREEMENT BETWEEN UNIDO AND THE REPUBLIC OF AUSTRIA

Report by the Director-General

1. The present report updates information provided in documents IDB.6/17, IDB.8/34 and GC.4/46.

2. In the report by the Director-General contained in document GC.4/46, dated 26 September 1991, it was anticipated that a formal proposal of UNIDO's draft definitive headquarters agreement would be submitted to the Government of the Republic of Austria in the near future.

3. Following the conclusion of the consultations which were held between the legal officers of the United Nations Office at Vienna (UNOV) and UNIDO, and in which a representative of the Legal Division of the International Atomic Energy Agency (IAEA) participated as an observer, the Director-General of UNIDO, on 1 November 1991, formally proposed the draft of a definitive headquarters agreement for UNIDO to the Federal Minister for Foreign Affairs of the Republic of Austria. On the same day a parallel, nearly identical text was proposed for the United Nations Office at Vienna by the Director-General of UNOV.

4. In a communication dated 27 November 1991, the Federal Minister for Foreign Affairs, acknowledging receipt of the proposal of the Director-General of UNIDO, referred to it as a good basis for the impending negotiations and stated that as a first step the Foreign Ministry would consult the other Federal Ministries concerned on the various aspects falling within their respective competence. After those consultations, the Foreign Ministry would be in a position to commence the negotiations with the international organizations.

5. On 12 August 1992, a meeting was held between the legal advisers of the Foreign Ministry of Austria and of UNIDO, at which consideration was given to the form in which the negotiations should be conducted. Following an exchange of views between the legal advisers, it was indicated from the Austrian side that the interministerial consultations would be brought to a conclusion in the near future and that UNIDO could expect thereafter to receive comprehensive written comments on the proposed draft definitive headquarters agreement.

6. There was general agreement among the legal advisers that it had become urgent to bring the negotiations to a conclusion as soon as possible.

ACTION REQUIRED OF THE BOARD

7. The Industrial Development Board may wish to take note of the present report.

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